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Legislative Audit Division

State of Montana

Report to the Legislature

February 2000

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1999

Montana Arts Council

This report contains a qualified opinion and six recommendations to the council relating to:

- Federal cash management.
- Subrecipient monitoring.
- Completeness of the schedule of expenditures of federal awards.
- Cash balances in shared accounting entities.
- Revenue classification of federal indirect cost recoveries.
- Expenditure accruals.

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Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 1999, will be issued by March 31, 2000. Copies of the Single Audit Report, when available, can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
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Tori Hunthausen, IT & Operations Manager

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

February 2000

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana Arts Council for fiscal years 1998 and 1999. The report contains six recommendations where the council could enhance compliance with state and federal laws and regulations. The council's written response to the audit is included in the back of the report.

We thank the Executive Director and staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

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Legislative Audit Division

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1999

Montana Arts Council

Members of the audit staff involved in this audit were Valerie Billman, Paul J. O'Loughlin, and Lorry Parriman.

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Appointed and Administrative Officials

Montana Arts Council

		Term Expires
Bill Frazier (Chair)	Livingston	2000
Carol Novotne (Vice-Chair)	Helena	2002
Kathy Doeden	Miles City	2000
Monte Dolack	Missoula	2000
Jennifer Earle Seifert	Troy	2000
Marilyn Olson	Sidney	2000
Carol Brenden	Scobey	2002
Connie Clarke	Miles City	2002
John Dudis	Kalispell	2002
Robert Morrison	Billings	2002
Ann Cogswell	Great Falls	2003
Rick Halmes	Billings	2003
Sody Jones	Billings	2003
Diane M. Klein	Kalispell	2003
Jackie Parsons	Browning	2003

Administrative Officials

Arlynn Fishbaugh	Executive Director
Carleen Layne	Accountant

Montana Arts Council

We performed a financial-compliance audit of the Montana Arts Council for fiscal years ending June 30, 1998, and June 30, 1999. This report contains six recommendations to the council relating to federal cash management, monitoring recipients of federal funds, completeness of the schedule of expenditures of federal awards, cash balances in shared accounting entities, classification of federal indirect cost recoveries, and expenditure accruals.

We issued a qualified opinion on the financial schedules presented in this report because the council did not process a cash balance closing entry at fiscal year-end 1998 or 1999. This issue is discussed beginning on page 7 of the report. The qualified opinion means the reader should use caution when relying on the presented financial and supporting detailed information related to the Special Revenue Fund ending fund balance at June 30, 1998, and June 30, 1999.

The council concurred with the recommendations in this report. The council's written response to the audit begins on page B-3.

The listing below serves as a means of summarizing the recommendations contained in the report, the council's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the council monitor cash balances and draw federal cash based on need in accordance with federal regulations. . . . . Page 5

Council Response: Concur. See page B-3.

Recommendation #2

We recommend the council:

A. Include language in its contracts to advise subrecipients of federal audit requirements.

B. Take reasonable steps to obtain required subrecipient audits and review and resolve applicable findings. . . . . Page 6

Council Response: Concur. See page B-4.

Recommendation #3

We recommend the council ensure the preparation procedures for the Schedule of Expenditures of Federal Awards (SEFA) include a review of prior year transactions to properly include all federal expenditures on the SEFA. . . . . Page 7

Council Response: Concur. See page B-4.

Recommendation #4

We recommend the council ensure cash is transferred to the administering agency for shared accounting entities with cash subsidiary detail ledger requirements in accordance with state accounting policy . . . . . Page 8

Council Response: Concur. See page B-4.

Recommendation #5

We recommend the council properly record federal indirect cost recovery revenue in accordance with state accounting policies . . . . . Page 9

Council Response: Concur. See page B-4.

Recommendation #6

We recommend the council record expenditure accruals in accordance with state accounting policy . . . . . Page 10

Council Response: Concur. See page B-4.

Introduction

Introduction

We performed a financial-compliance audit of the Montana Arts Council (council) for the two fiscal years ended June 30, 1999. The objectives of the audit were to:

1. Determine the council's compliance with applicable laws and regulations.
2. Make recommendations for improvement in the council's management and internal controls.
3. Determine the status of prior audit recommendations.
4. Determine if the council's financial schedules present fairly the results of its operations for the two fiscal years ended June 30, 1999.

The report contains six recommendations to the council. Areas of concern deemed not to have a significant effect on the successful operations of the council are not included in this report but have been discussed with management.

Background

The Montana Arts Council was established as a state agency in 1967. The council consists of 15 members who are appointed by the governor, confirmed by the Senate, and serve staggered five-year terms. The council is responsible for the governance, management, and control of the agency. The council's duties are to:

1. Encourage the study and presentation of the arts throughout the state.
2. Stimulate public interest and participation in the arts.
3. Cooperate with public and private institutions engaged in cultural and aesthetic activities.
4. Foster public interest in the cultural heritage of Montana and expand the state's cultural resources.
5. Encourage and assist freedom of artistic expression.

Programs such as Artists in Schools/Communities, Governor's Awards for the Arts, and Montana Folklife are designed to expose Montanans to their artistic and cultural heritage. Grants, fellowships, technical assistance, and networking efforts help support both individual artists and art and cultural organizations.

The council has three sources of funding: federal grants from the National Endowment for the Arts (NEA), investment earnings from its Cultural Trust Fund, and the General Fund. General Fund support was $241,068 and $246,009 in fiscal years 1998 and 1999, respectively. The council had six full-time equivalent positions in fiscal year 1999.

The council uses investment income from the Cultural Trust Fund for the protection of art in the state capitol and for cultural and aesthetic projects. The trust fund's corpus must remain intact and, except between July 1, 1997, and June 30, 1999, increases by 0.63 percent of annual coal severance tax revenue. Between July 1, 1997, and June 30, 1999, section 15-35-108, MCA, allocated 0.87 percent of coal severance tax revenues to the state Special Revenue Fund for protecting works of art in the state capitol and for cultural and aesthetic projects. Effective July 1, 1999, 0.63 percent of the coal tax is again deposited in the Cultural Trust Fund.

The 55th Legislature designated funds from the Cultural Trust Fund corpus to be used in the Virginia City and Nevada City purchase. Cultural and Aesthetics (C&A) grants are available to cultural organizations and units of state, local, and tribal governments. The council provides support for the C&A project advisory committee in reviewing grant applications. The advisory committee recommends a prioritized grant list to the legislature for funding. The legislature determines which organizations will receive grants, and the council awards the money as specified by the legislature. The 55th Legislature in 1997 approved funding for 81 cultural and aesthetic projects in the 1999 biennium totaling approximately $1.1 million.

Prior Audit Recommendations

Prior Audit Recommendations

Our office performed the audit of the Montana Arts Council for the two fiscal years ended June 30, 1997. The audit report contained five recommendations. The council implemented three recommendations and partially implemented two recommendations.

The first recommendation partially implemented relates to monitoring and drawing federal funds (see page 5). The second partially implemented recommendation involves proper recording of federal indirect cost recovery revenue (see page 9).

Findings and Recommendations

Federal Compliance

During the audit period, the National Endowment for the Arts (NEA) provided federal assistance to the council. The council is responsible for the oversight of federal awards, which includes monitoring expenditures, requesting cash when needed, subrecipient monitoring, and providing the Schedule of Expenditures of Federal Awards (SEFA) to the governor's Office of Budget and Program Planning (OBPP). We noted three areas where the council can improve its compliance with federal requirements. The following sections discuss our findings.

Cash Management

Federal regulations require the methods and procedures used for requesting funds to minimize the time elapsing between the request for funds and subsequent disbursement. In our prior audit report, we recommended the council adopt and follow procedures to monitor cash balances and draw federal cash based on need. The council did attempt to project cash needs in order to draw federal cash on a timely basis. Staff said that excessive workloads and a position vacancy contributed to their inability to effectively monitor cash balances and draw cash on a timely basis.

We reviewed cash balances and expenditures in the council's federal accounts for the last six months of fiscal year 1999. The combined ending cash balance in the federal accounts at the end of January 1999 was $174,612. This amount was enough to cover recorded expenditures through the end of May 1999. Council staff said they draw cash through electronic funds transfer and receive those funds within one week of their request. Staff also said they are already working on improving compliance and met with another agency accountant to gain additional insight into developing a sound cash management plan. The council should continue developing and implementing its procedures for projecting cash needs and drawing federal funds as needed.

Recommendation #1

We recommend the council monitor cash balances and draw federal cash based on need in accordance with federal regulations.

Subrecipient Monitoring

We reviewed the standard award contract used by the council when it subgrants federal funds. In accordance with federal regulations, the contract states the amount of federal funds, the federal catalog name, and the catalog of federal domestic assistance (CFDA) number. The contract does not inform the subrecipient of federal audit requirements, and the council does not receive required audit reports from subrecipients.

The Single Audit Act Amendments of 1996 and Office of Management and Budget (OMB) Circular A-133 require an entity subgranting federal awards to notify the subrecipient of federal audit requirements. Subrecipients expending more than $300,000 in federal awards from all sources during a fiscal year must receive a single audit or program-specific audit in accordance with federal regulations and provide the audit report to the agency which granted the federal funds.

Because it does not notify subrecipients of audit requirements, the council is not in compliance with federal regulations. If the council does not receive required audit reports, they are not in a position to determine if there were audit findings related to federal assistance or pursue resolution of relevant audit findings. Council staff said there would not be very many entities affected by the required audit notification.

Recommendation #2
We recommend the council:

A. Include language in its contracts to advise subrecipients of federal audit requirements.

B. Take reasonable steps to obtain required subrecipient audits and review and resolve applicable findings.

Schedule of Expenditures of Federal Awards

OMB Circular A-133 requires recipients of federal funds to prepare a SEFA. The council prepared a SEFA for fiscal year 1999 and submitted it to the OBPP for inclusion in the state's Single Audit report.

The accounting records should support the SEFA and include transactions processed in the specific fiscal year. The council processed a prior year transaction in fiscal year 1999 and should have included this on the fiscal year 1999 SEFA. As a result, the fiscal year 1999 SEFA submitted to the OBPP is understated by $28,000.

Recommendation #3
We recommend the council ensure the preparation procedures for the Schedule of Expenditures of Federal Awards (SEFA) include a review of prior year transactions to properly include all federal expenditures on the SEFA.

Accounting Issues

The following sections discuss areas where the council can improve recording of financial activity in accordance with state accounting policy.

Cash Balances in Shared Accounting Entities

The state's accounting structure provides for shared accounting entities whereby one or more agencies collect and record revenue and other agencies have spending authority. The administering agency is responsible for ensuring proper cash balances at fiscal year-end. The accounting bureau (AB) at the Department of Administration processes the necessary transactions to ensure proper cash balances unless the accounting entity has a cash subsidiary detail ledger (SDL) requirement, in which case the administering agency must process the proper transactions to record cash balances. We noted one such shared accounting entity with a cash SDL requirement where the council was the administering agency. The council did not process a transaction to ensure proper cash at June 30, 1998, or June 30, 1999.

The council records Cultural and Aesthetic projects in the State Special Revenue Fund. The funding source for this activity is interest earnings from the Nonexpendable Cultural Trust Fund. In previous years the legislature allocated a portion of coal tax revenues to the Cultural Trust Fund. For fiscal years 1998 and 1999, the legislature allocated the coal tax revenue portion directly to the State Special Revenue Fund to offset the loss of interest earnings that occurred when a portion of the trust fund principal was used to purchase Virginia City and Nevada City. When this happened, a shared accounting entity was necessary to allow the Department of Revenue to deposit coal tax proceeds and the council to spend the funds. Since a cash SDL was required and the council was the administering agency, the council was required to process a transaction to establish proper cash balances as noted in the paragraph above.

Failure to process a required transaction in fiscal year 1998 resulted in an understatement of cash and ending fund balance in the State Special Revenue Fund by approximately $186,283 at June 30, 1998. The cumulative effect of this error in fiscal year 1998 carries forward to fiscal year 1999 and resulted in cash and ending fund balance in the State Special Revenue Fund being understated by approximately $340,171 at June 30, 1999. In addition, these errors explain the negative fund balance in the Special Revenue Fund at June 30, 1999, as shown on the Schedule of Changes in Fund Balances on page A-5. The effect of these errors requires us to issue a qualified opinion on the council's financial schedules for each of the fiscal years ending June 30, 1998, and June 30, 1999.

This does not mean the council mismanaged any funds. The council simply misunderstood the procedure necessary to balance cash at fiscal year-end.

Recommendation #4

We recommend the council ensure cash is transferred to the administering agency for shared accounting entities with cash subsidiary detail ledger requirements in accordance with state accounting policy.

Revenue Classification

In our prior audit report we recommended the council properly record federal indirect cost recoveries on its accounting records. Management Memo 2-88-2 provides that a distinction should be made between federal award revenues and federal indirect cost recovery revenue.

Council staff did not properly record indirect cost recovery revenue in fiscal years 1998 and 1999 in the Federal Special Revenue Fund. As a result, federal indirect cost recovery revenues are understated and federal revenues are overstated by $5,486 and $5,640 in fiscal years 1998 and 1999, respectively, in the Special Revenue Fund.

Recommendation #5
We recommend the council properly record federal indirect cost recovery revenue in accordance with state accounting policies.

Expenditure Accruals

State accounting policy provides for the accrual of valid expenditure obligations incurred but unpaid by June 30. The accounting bureau of the Department of Administration issues general instructions to all agencies for fiscal year-end closing procedures. Included in these instructions are directions for properly recording expenditure accruals. An item which meets valid expenditure criteria is to be recorded as an "A" accrual for items or services received after June 30 and a "B" accrual for items or services received before June 30. This designation is made so that "A" accruals may be eliminated by the accounting bureau in preparation of Montana's Comprehensive Annual Financial Report (CAFR) in accordance with generally accepted accounting principles.

We found several instances in fiscal years 1998 and 1999 where the council incorrectly recorded "A" accruals as "B" accruals. The accrued items related to grant awards made by the council prior to June 30 in each fiscal year. The entities receiving the grants carry out the required program(s) and receive payment in the following fiscal year. According to the criteria noted above these obligations should have been recorded as "A" accruals. Approximately

$47,000 and $107,000 in fiscal years 1998 and 1999, respectively, were improperly recorded as "B" accruals. This does not affect the council's financial schedules; however, it does cause errors in the CAFR process because the accounting bureau does not have the necessary information to adjust the CAFR. Council staff indicated they misunderstood the expenditure accrual criteria.

Recommendation #6

We recommend the council record expenditure accruals in accordance with state accounting policy.

Independent Auditor's Report & Council Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Montana Arts Council for each of the fiscal years ended June 30, 1998, and 1999. The information contained in these financial schedules is the responsibility of the council's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the council's assets, liabilities, and cash flows.

The council did not process necessary transactions in fiscal years 1998 or 1999 to properly reflect cash balances in a shared accounting entity. This resulted in an understatement of cash and ending fund balance in the Special Revenue Fund of $186,283 at June 30, 1998, and $340,171 at June 30, 1999, respectively.

In our opinion, except for the effects of the issue discussed in the preceding paragraph, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Montana Arts Council for each of the fiscal years ended June 30, 1998, and 1999, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

January 7, 2000

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MONTANA ARTS COUNCIL
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

	General Fund	Special Revenue Fund	Nonexpendable Trust Fund
FUND BALANCE: July 1, 1998	$ (56,233)	$ 111,324	$ 4,037,863
ADDITIONS			
Budgeted Revenues & Transfers-In (see Note 4)		1,162,471	76,222
Nonbudgeted Revenues & Transfers-In	5,673	78	
Cash Transfers In (Out) (see Note 3)	254,618		
Direct Entries to Fund Balance		150	
Total Additions	260,291	1,162,699	76,222
REDUCTIONS			
Budgeted Expenditures & Transfers-Out	246,009	1,559,198	
Nonbudgeted Expenditures & Transfers-Out (see Note 4)			295,223
Total Reductions	246,009	1,559,198	295,223
FUND BALANCE: June 30, 1999 (see Note 2)	$ (41,951)	$ (285,175)	$ 3,818,862

This schedule is prepared from the Statewide Budgeting and Accounting System without adjustments.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA ARTS COUNCIL
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

	General Fund	Special Revenue Fund	Nonexpendable Trust Fund
FUND BALANCE: July 1, 1997	$ (13,867)	$ 310,172	$ 3,788,882
ADDITIONS			
Budgeted Revenues & Transfers-In (see Note 4)		685,824	483,242
Nonbudgeted Revenues & Transfers-In	5,486		
Cash Transfers In (Out) (see Note 3)	193,216		53,202
Direct Entries to Fund Balance			10,117
Total Additions	198,702	685,824	546,561
REDUCTIONS			
Budgeted Expenditures & Transfers-Out	241,068	869,295	
Nonbudgeted Expenditures & Transfers-Out (see Note 4)		28,000	297,580
Prior Year Expenditures & Transfers-Out Adjustments		(12,623)	
Total Reductions	241,068	884,672	297,580
FUND BALANCE: June 30, 1998 (see Note 2)	$ (56,233)	$ 111,324	$ 4,037,863

This schedule is prepared from the Statewide Budgeting and Accounting System without adjustments. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA ARTS COUNCIL
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

	General Fund	Special Revenue Fund	Nonexpendable Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Charges for Services	$ 5,640			$ 5,640
Investment Earnings			$ 76,222	76,222
Miscellaneous	33	$ 78		111
Other Financing Sources		467,223		467,223
Federal		695,248		695,248
Total Revenues & Transfers-In	5,673	1,162,549	76,222	1,244,444
Less: Nonbudgeted Revenues & Transfers-In	5,673	78		5,751
Actual Budgeted Revenues & Transfers-In		1,162,471	76,222	1,238,693
Estimated Revenues & Transfers-In		1,313,367	635,972	1,949,339
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 0	$ (150,896)	$ (559,750)	$ (710,646)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Investment Earnings			$ (559,750)	(559,750)
Other Financing Sources		$ (340,748)		(340,748)
Federal		189,852		189,852
Budgeted Revenues & Transfers-In Over (under) Estimated	$ 0	$ (150,896)	$ (559,750)	$ (710,646)

This schedule is prepared from the Statewide Budgeting and Accounting System without adjustments. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA ARTS COUNCIL
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

	General Fund	Special Revenue Fund	Nonexpendable Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Charges for Services	$ 5,486			$ 5,486
Investment Earnings			$ 483,242	483,242
Other Financing Sources		$ 297,580		297,580
Federal		388,244		388,244
Total Revenues & Transfers-In	5,486	685,824	483,242	1,174,552
Less: Nonbudgeted Revenues & Transfers-In	5,486			5,486
Actual Budgeted Revenues & Transfers-In		685,824	483,242	1,169,066
Estimated Revenues & Transfers-In		1,168,360	635,972	1,804,332
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 0	$ (482,536)	$ (152,730)	$ (635,266)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Investment Earnings			$ (152,730)	(152,730)
Other Financing Sources		$ (338,392)		(338,392)
Federal		(144,144)		(144,144)
Budgeted Revenues & Transfers-In Over (under) Estimated	$ 0	$ (482,536)	$ (152,730)	$ (635,266)

This schedule is prepared from the Statewide Budgeting and Accounting System without adjustments. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA ARTS COUNCIL
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

	Promotion Of The Arts
PROGRAM EXPENDITURES & TRANSFERS-OUT BY OBJECT	
Personal Services	
Salaries	$ 206,424
Other Compensation	3,375
Employee Benefits	50,560
Total	260,359
Operating Expenses	
Other Services	131,136
Supplies & Materials	20,450
Communications	36,536
Travel	30,728
Rent	18,877
Repair & Maintenance	283
Other Expenses	13,974
Total	251,984
Grants	
From State Sources	881,926
From Federal Sources	410,938
Total	1,292,864
Transfers	
Accounting Entity Transfers	295,223
Total	295,223
Total Program Expenditures & Transfers-Out	$ 2,100,430
PROGRAM EXPENDITURES & TRANSFERS-OUT BY FUND	
General Fund	$ 246,009
Special Revenue Fund	1,559,198
Nonexpendable Trust Fund	295,223
Total Program Expenditures & Transfers-Out	2,100,430
Less: Nonbudgeted Expenditures & Transfers-Out	295,223
Actual Budgeted Expenditures & Transfers-Out	1,805,207
Budget Authority	2,191,389
Unspent Budget Authority	$ 386,182
UNSPENT BUDGET AUTHORITY BY FUND	
Special Revenue Fund	386,182
Unspent Budget Authority	$ 386,182

This schedule is prepared from the Statewide Budgeting and Accounting System without adjustments
Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA ARTS COUNCIL
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

	Promotion Of The Arts
PROGRAM EXPENDITURES & TRANSFERS-OUT BY OBJECT	
Personal Services	
Salaries	$ 179,100
Other Compensation	4,900
Employee Benefits	42,142
Total	226,142
Operating Expenses	
Other Services	135,912
Supplies & Materials	18,681
Communications	28,076
Travel	37,275
Rent	17,714
Repair & Maintenance	287
Other Expenses	10,664
Total	248,609
Equipment & Intangible Assets	
Equipment	5,518
Total	5,518
Grants	
From State Sources	439,402
From Federal Sources	191,069
Total	630,471
Transfers	
Accounting Entity Transfer	312,580
Total	312,580
Total Program Expenditures & Transfers-Out	$ 1,423,320
PROGRAM EXPENDITURES & TRANSFERS-OUT BY FUND	
General Fund	$ 241,068
Special Revenue Fund	884,672
Nonexpendable Trust Fund	297,580
Total Program Expenditures & Transfers-Out	1,423,320
Less: Nonbudgeted Expenditures & Transfers-Out	325,580
Prior Year Expenditures & Transfers-Out Adjustments	(12,623)
Actual Budgeted Expenditures & Transfers-Out	1,110,363
Budget Authority	2,046,454
Unspent Budget Authority	$ 936,091
UNSPENT BUDGET AUTHORITY BY FUND	
General Fund	$ 462
Special Revenue Fund	935,629
Unspent Budget Authority	$ 936,091

This schedule is prepared from the Statewide Budgeting and Accounting System without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Notes to the Financial Schedules

1. Summary of Significant Accounting Policies

Basis of Accounting

The council uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental Funds. In applying the modified accrual basis, the council records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the council to record the cost of employees' annual leave when used or paid.

The council uses accrual basis accounting for the Nonexpendable Trust Fund. Under the accrual basis, as defined by state accounting policy, the council records revenues in the accounting period earned if measurable and records expenses in the period incurred, if measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the council receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the Statewide Budgeting and Accounting System without adjustment.

Accounts are organized in funds according to state law. The council uses the following funds:

Governmental Funds

General Fund - to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. The council's Special Revenue Funds include the Cultural and Aesthetic Projects account, State Building Art Acquisitions account and accounts to track grants from the National Endowment for the Arts.

Fiduciary Funds

Trust Funds - to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds. The council's Nonexpendable Trust Fund is the Cultural Trust Fund.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. Each agency does not have a separate General Fund since its only authority is to pay obligations from the statewide General Fund within its appropriation limits. Each agency records cash or other assets from the statewide fund when it pays General Fund obligations. The council's outstanding liabilities exceed the assets the agency has placed in the fund, resulting in negative ending General Fund balances for each fiscal year ending June 30, 1998, and June 30, 1999.

3. Cash Transfers-In

Cash Transfers-In in the General Fund of $193,216 in fiscal year 1998 and $254,618 in fiscal year 1999 and Cash Transfers-Out of $53,202 in the Nonexpendable Trust Fund in fiscal year 1998 are entries made on the council's behalf by the Department of Administration at fiscal year-end. These entries are necessary to balance the statewide General Fund and to consolidate cash balances at fiscal year-end in the Nonexpendable Trust Fund.

4. Nonexpendable Trust Fund

During the 55th Legislative Session in 1997, the legislature appropriated $3,912,500 of the Cultural Trust Fund to the Montana Historical Society for the acquisition, renovation, and preservation of the landmarks known as Virginia City and Nevada City. The cash was transferred from the council to the Montana Historical Society in May 1997. For fiscal years 1998 and 1999, to compensate for the loss of interest earnings, the 55th Legislative Session amended section 15-35-108(6), MCA, to allow 0.87 percent of the coal tax earnings to be deposited in the State Special Revenue Fund for the purpose of protection of works of art in the state capitol and for other cultural and aesthetic projects. Beginning on July 1, 1999, the amount of 0.63 percent of the coal tax earnings must again be allocated to the Cultural Trust Fund. The Budgeted Revenues and Transfers-In represent interest earnings of the Cultural Trust Fund. These interest earnings, shown as Nonbudgeted Expenditures and Transfers-Out, are for cultural and aesthetic grants appropriated by the legislature and accounted for in the Special Revenue Fund.

Council Response

MONTANA ARTS COUNCIL

MARC RACICOT, GOVERNOR

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STATE OF MONTANA

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PO BOX 202201
HELENA, MONTANA 59620-2201

Wednesday, February 16, 2000

To: Scott Seacat
Legislative Auditor

From: Arlynn Fishbaugh
Executive Director

RE: Review of audit recommendations and agency response

I wish to first of all commend you on the overall cordiality and helpfulness of your staff. As a small agency our ability to review, think about and discuss how higher level accounting matters pertain to our agency is highly compressed. It is also a challenge to stay abreast of all the applicable law changes that relate to us. We have searched out and asked for assistance in this area, but even our contracted legal service at the AG's office doesn't seem to have ready access to all the latest information. Our staff attends every briefing and training available and reads mountains of material to stay current. There is a great deal of information and constant change going on, so we are grateful to be brought up to speed on all these matters. If your office or some other in the state would consider providing a training overview of state and federal law and procedure changes, we think it would be very beneficial—maybe even to larger agencies. Perhaps this could be conducted on a biennial basis after each session.

We have reviewed the audit recommendations and concur with them all. Enclosed you will find our position, contemplated corrective action and timetable for implementation on each recommendation.

Recommendation #1
We recommend the council monitor cash balances and draw federal cash based on need in accordance with federal regulations.

We concur. We began this monitoring during the audit period, but apparently need to further tighten up on our cash requests. We are already in contact with the Inspector General's office at the National Endowment for the Arts for more complete guidance on this matter and plan to have the matter well in hand within the next 90 days.

Recommendation #2
We recommend the council:
A. Include language in its contracts to advise subrecipients of federal audit requirements.

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B. Take reasonable steps to obtain required subrecipient audits and review and resolve applicable findings.

We concur. We have included the language in our most recent grant application forms and will also include it in the next round of grant contracts which will be prepared in the next fiscal year. For part B, we have had a discussion with your staff and believe we can implement this requirement. The universities and local governments are the only entities we give funds to who might meet the $300,000 funding level.

Recommendation #3
We recommend the council ensure the preparation procedures for the schedule of expenditures of federal awards (SEFA) include a review of prior year transactions to properly include all federal expenditures on the SEFA.

We concur and will implement this recommendation for all future SEFA's. These reports are prepared in August of each year.

Recommendation #4
We recommend the council ensure cash is transferred to the administering agency for shared accounting entities with cash subsidiary detail ledger requirements in accordance with state accounting policy.

We concur. We have contacted Accounting at the Department of Administration to ensure this matter is handled by fiscal year end.

Recommendation #5
We recommend the council properly record federal indirect cost recovery revenue in accordance with state accounting policies.

We concur. We have received a letter from the NEA IG giving us a time extension on our indirect cost rate and will follow Management Memo 2-88-2 for this fiscal year.

Recommendation #6
We recommend the council record expenditure accruals in accordance with state accounting policy.

We concur and will record any accrued grants in accordance with the state's Fiscal Year End Memo for fiscal year 2000.